Saving Money and Keeping Promises

Posted by Pierluigi Oliverio on Monday, January 14, 2008

City Hall Diary

Last week the San Jose City Council discussed the issue of co-payments for retired city workers and their dependents. The recommendation from the city manager was to defer adding co-payments for one year to allow more time for this issue to be researched. Whatever the outcome, the decision will affect 3,000 retired city employees, including dependents, and the city budget.

The city would save $1,121,000 by applying co-payments to retirees and their dependents. This is quite a savings in itself—even more of a savings when you look at the city's deficit.

Why is the topic of co-pay being discussed? Well, the fact that applying co-pay could save the city money is a good reason. Also, co-pay makes those who choose to go to the doctor accountable. For example, if one does not have to pay to see a doctor, then the service might be overused since it is free. If the city applied co-pays for each doctor visit and prescription, it would make one think twice about the necessity of a doctor visit.

This is largely due to the effect of "consumerism." Employers find that having co-payments reduces health insurance premiums; however, by doing so it increases out-of-pocket costs. I have always had a co-payment attached to any and all of my doctor's appointments. In addition, both my parents, who are retired teachers, make co-payments with their Medicare and out-of-pocket private insurance—no exceptions.

The issue here is what the city has "promised" its retirees and making sure the city keeps its promise. An overhaul of retirement benefits will not happen soon; however, thoughtful ideas should not be ignored. I think there is an opportunity for the city to keep its promise to retirees and save the city money.

One idea that I shared at the council meeting last week was to apply co-payments with the security of the city reimbursing the retirees and their dependents for them. For instance, a retiree would go to the doctor and pay a $10 co-pay to see a physician. The retiree would receive a receipt for the co-pay and mail it in to the city who would reimburse the retiree 90 percent, or in this case $9.

Let's take, for example, that all 3,000 retirees/dependents go to the doctor four times a year and receive a monthly generic prescription twelve times a year. The twelve prescriptions would be $54 and four visits would be $36, which totals $90. (Original out of pocket for beneficiary is $100.) Therefore, $90 x 3,000 retires=$270,000. You then have the "difference," or, better said, the "savings" to the city of $851,000 (the difference between $1,121,000 and $270,000).

Now, some of you out there are probably saying that it will cost the city more then $851,000 to manage the reimbursement. I have an answer for you: No, it won't.

The city could easily implement a system that allows for reimbursements of this nature. For example, we could spend a few hundred dollars for Quick Books online—a web based system. Then, the city could import, via Excel, the information of all those eligible for reimbursements—retirees and their dependents—into Quick Books. Then, when a retiree/dependent receives their receipt, they can mail it in to the city and the (one) accounts payable person will enter the receipt into the system and mail the reimbursement check. The city auditor could have real-time access to Quick Books to oversee the transactions. Another viable alternative is that we consider contracting with a reimbursement service as is done for State of California employees.

Of course there are variables; however, I think it is important to ask the question: How can we do both? How can we keep our commitments to retirees and save the city money? The answer does not have to be one or the other.

Saving the city money and keeping promises can be accomplished. It's not easy, but those involved, including me, are going to have to try harder to find the middle ground.

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